APPENDIX F

PIXLEY KA SEME DISTRICT MUNICIPALITY : GRANTS AND SUBSIDIES RECEIVED FOR THE YEAR ENDED 30 JUNE 2009

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed/withheld				Reason for delay/ withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June		Yes/No	
Dora																
Equitable Share	National	1 396 500.00	1 396 500.00	1 396 500.00	1 396 500.00	1 396 500.00	1 396 500.00	1 396 500.00	1 396 500.00	-	-	-	-	n/a	Yes	n/a
Lew Replacement	National	3 464 589.75	3 464 589.75	3 464 589.75	3 464 589.75	3 464 589.75	3 464 589.75	3 464 589.75	3 464 589.75	-	-	-	-	n/a	Yes	n/a
Councillor Rumeneration	National	209 500.00	209 500.00	209 500.00	209 500.00	209 500.00	209 500.00	209 500.00	209 500.00	-	-	-	-	n/a	Yes	n/a
FMG	National	500 000.00	-	-	-	125 000.00	125 000.00	125 000.00	125 000.00	-	-	-	-	n/a	Yes	n/a
MIG	National	729 750.00	729 750.00	729 750.00	729 750.00	729 750.00	729 750.00	729 750.00	729 750.00	-	-	-	-	n/a	Yes	n/a
MSIG	National	735 000.00	-	-	-	183 750.00	183 750.00	183 750.00	183 750.00	-	-	-	-	n/a	Yes	n/a
		7 035 339.75	5 800 339.75	5 800 339.75	5 800 339.75	6 109 089.75	6 109 089.75	6 109 089.75	6 109 089.75	-	-	-	-			
Grants Province																
Near	Provincial	-	-	864 000.00	-	216 000.00	216 000.00	216 000.00	216 000.00	-	-	-	-	n/a	Yes	n/a
Environmental Health	Provincial	10 000.00	-	30 000.00	-	10 000.00	10 000.00	10 000.00	10 000.00	-	-	-	-	n/a	Yes	n/a
Housing	Provincial	5 600 550.87	6 697 091.53	3 791 946.80	2 728 855.86	5 600 550.87	6 697 091.53	3 791 946.80	2 728 855.86							
Roadworks	Provincial	4 428 999.99	4 428 999.99	4 428 999.99	4 650 249.99	4 428 999.99	4 428 999.99	4 428 999.99	4 650 249.99	-	-	-	-	n/a	Yes	n/a
		10 039 550.86	11 126 091.52	9 114 946.79	7 379 105.85	10 255 550.86	11 352 091.52	8 446 946.79	7 605 105.85	-	-	-	-			
Other																
Housing	National	-	1 800 000.00	-	-	450 000.00	450 000.00	450 000.00	450 000.00	-	-	-	-	n/a	Yes	n/a
MIG	National	4 216 234.69	5 380 733.99	7 726 408.09	4 733 155.64	4 216 234.69	5 380 733.99	7 726 408.09	4 733 155.64	-	-	-	-	n/a	Yes	n/a
NYAC	National	140 314.99	752 653.16			140 314.99	752 653.16									
Powerline Subsidy	National	-	700 000.00	-	-	-	700 000.00	-	-	-	-	-	-	n/a	Yes	n/a
Flood Damage	National	56 330.37	286 738.00	57 837.43	255 328.31	56 330.37	286 738.00	57 837.43	255 328.31	-	-	-	-	n/a	Yes	n/a
O&M Water	National	-	31 018.70	2 371.25	-		31 018.70	2 371.25	-	-	-	-	-	n/a	Yes	n/a
DWAF	National	4 562 058.05	5 161 030.89	1 402 673.08	1 040 589.78	4 562 058.05	5 161 030.89	1 402 673.08	1 040 589.78	-	-	-	-	n/a	Yes	n/a
Regravelling	Provincial	1 737 000.00	1 184 737.59	568 321.50	2 795.10	1 737 000.00	1 184 737.59	568 321.50	2 795.10	-	-	-	-	n/a	Yes	n/a
		10 711 938.10	15 296 912.33	9 757 611.35	6 031 868.83	11 161 938.10	13 946 912.33	10 207 611.35	6 481 868.83	-	-	-	-			
		27 786 828.71	32 223 343.60	24 672 897.89	19 211 314.43	27 526 578.71	31 408 093.60	24 763 647.89	20 196 064.43	-	-	-	-			

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CERTIFICATE OF INVENTORY AND ASSETS

This is to certify that a stock take, according to Article 63 of the MFMA no 56 of 2003, was done of all the assets and inventory of the municipality for the 2008/2009 financial year.

1. The municipality no longer keeps any inventory. Inventory items are purchased when needed.
2. The value of the assets of the municipality is R26 628 440.27.
3. The municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality.
4. The municipality's assets are valued in accordance with the standards of generally recognised accounting practice.
5. The municipality has and maintains a system of internal control of assets, including an assets register.

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B F JAMES
FINANCIAL MANAGER

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4.2 ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

4.2.1 BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Directive 5 "Determining the GRAP Reporting Framework", issued by the Accounting Standards Board.

The standards are summarized as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and errors

GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investment in Associate
GRAP 8	Investments in Associate
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economics
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment (PPE)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations
GRAP 101	Agricultural
GRAP 102	Intangible Assets

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

In terms of Directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities" issued by the Accounting Standards Board, the municipality has adopted the transitional provisions for the following GRAP Standards:

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GRAP 12 – Inventories;

GRAP 13 – Leases;

GRAP 16 – Investment Property;

GRAP 17 – Property, Plant and Equipment;

GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets;

GRAP 100 – Non-current Assets Held for Sale and Discontinued Operations;

GRAP 102 – Intangible Assets.

4.2.2 PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviation display format. No foreign exchange transactions are included in the statements.

4.2.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4.2.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

4.2.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

GRAP 18	Segment Reporting
GRAP 21	Impairment of non-cash-generating assets
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements

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GRAP 26	Impairment of cash-generating assets
GRAP 103	Heritage Assets

The above mentioned standards, not yet effective, will not have a major impact on the Municipality as it is not applicable to the Municipality, except for impairment.

4.2.6 FOREIGN CURRENCY TRANSACTIONS

The Municipality will not incur a foreign currency liability other than allowed by the MFMA.

4.2.7 RESERVES

4.2.7.1 GOVERNMENT GRANT RESERVE

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus to the Government Grant Reserve equal to the value of the government grant recorded as revenue in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus.

When an item of property, plant and equipment, financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

The purpose of the Government Grant Reserve is to promote community equity by ensuring and funding the future depreciation expenses that will be incurred over the useful lives of Government Grant funded items of property, plant and equipment.

4.2.7.2 CAPITAL REPLACEMENT RESERVE

When items of property, plant and equipment are financed using the CRR cash resources, a corresponding transfer is made from the CRR bank account to the accumulated surplus/(deficit) in the Statement of Financial Performance as income. The expenses relating to these items are applied against the accumulated surplus/(deficit) in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, it is done against the accumulated surplus/(deficit) in the Statement of Financial Performance.

When an item of property, plant and equipment financed from the CRR is disposed, the amount received for that item, if any, is transferred to the CRR bank account.

The Capital Replacement Reserve may only be utilized for the purpose of purchasing or the construction of property, plant and equipment and may not be used for the maintenance of these items.

4.2.7.3 REVALUATION RESERVE

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation reserve is realized as revalued buildings, are depreciated through a transfer from the Revaluation Reserve to the accumulated surplus/(deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are charged to the Statement of Financial Performance.

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4.2.8 LEASES

4.2.8.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Transfer of ownership is not required to be recognized as a finance lease.

Amounts held under finance leases are initially recognized as assets of the Municipality at their fair value at the inception of the lease or, if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Municipality's policy on borrowing costs.

Operating lease payments are recognized as an expense in the Statement of Financial Performance.

4.2.8.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognizes the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as a sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognized as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

4.2.9 BORROWING COST

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalization of borrowing costs when substantially all the activities to prepare the assets for its intended use or sale are complete. It is considered inappropriate to capitalize borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognized as an expense in the Statement of Financial Performance when incurred.

4.2.10 CONDITIONAL GRANTS

Revenue received from conditional grants, donations and funding are recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognized.

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Revenue received from conditional grants, donations and funding are received in a separate bank account. Expenditure incurred against these accounts and the balance at year-end are stated as unspent conditional grants in the annual financial statements

4.2.10.1 UNSPENT CONDITIONAL GRANTS

Unspent conditional grants are reflected on the Statement of Financial Position under Current Liabilities.

- The balance of the unspent conditional grants is separately invested.
- Interest earned on the investments is treated in accordance with the grant conditions. If it is payable to the funder, it is recorded as part of the unspent conditional grant. If it is not a condition, interest is recognized as interest earned in the Statement of Financial Performance of the Municipality.

4.2.11 PROVISIONS

Provisions are recognized when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates. Provisions are only used for the purposes for which they were originally recognized.

The Municipality does not recognize contingent liabilities or contingent assets. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognized for future operating losses. The present obligation under an onerous contract is recognized and measured as a provision.

A provision for restructuring costs is recognized only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

4.2.12 EMPLOYEE BENEFITS

4.2.12.1 PENSION OBLIGATIONS : IN-SERVICE MEMBERS

The District Municipality contributes to the following post retirement funds:

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- Cape Joint Pension Fund
- Cape Joint Retirement Fund
- SAMWU Provident Fund
-

The retirement benefits are calculated in accordance with the rules of the funds.

Current contributions are charged against the operating account of the Council at a percentage of the pensionable remuneration paid to the employees.

4.2.12.2 PENSION OBLIGATIONS : POST RETIREMENT PENSION BENEFITS

Currently five retired employees benefited from this obligation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance. (See note 2)

4.2.12.3 POST RETIREMENT MEDICAL OBLIGATIONS

The District Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pay 70% of the contributions and the remaining 30% is paid by the members. The entitlement to those benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance. (See note 2)

4.2.12.4 ACCRUED LEAVE PAY

Liabilities for annual leave are recognized as they accrue to employees. The liability is based on the total amount ofleave days due to employees at year end and also on the total remuneration package of the employee.

4.2.12.5 BONUSES

Bonuses are paid to employees in November and December in the form of a thirteenth cheque or pro-rata for employees with less than one year service. Provision has been made for this expense in the budget of the Municipality.

4.2.12.6 PERFORMANCE BONUSES

Performance bonuses are paid to section 57 employees if they qualify. Provision has been made for this expense in the budget of the Municipality.

4.2.12.7 LONG SERVICE BONUS

The Municipality doesn't pay long service bonuses.

4.2.13 PROPERTY, PLANT AND EQUIPMENT

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4.2.13.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used for more than one year. Items of property, plant and equipment are initially recognized as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

4.2.13.2 SUBSEQUENT MEASUREMENT – REVALUATION MODEL

Subsequent to initial recognition, property, plant and equipment is carried at a revalued amount, unless otherwise stated in the relevant Notes to the Financial Statements, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognized in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

4.2.13.3 SUBSEQUENT MEASUREMENT – COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalizes the new component. Subsequent expenditure incurred on an asset is capitalized when it increases the capacity or future economic benefits associated with the asset.

4.2.13.4 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that

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have different useful lives are depreciated separately. The annual depreciation rates are based on the *following estimated* useful lives.

	Years
Community	
Buildings	30
Heritage Assets	
No depreciation	
Finance Lease Assets	
Other Assets	5
Other Assets	
Vehicles	5
Office Equipment	3-7
Specialized Plant and Equipment	10
Computer Equipment	5

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognized as a change in accounting estimate in the Statement of Financial Performance.

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, an impairment loss is charged to the Statement of Financial Performance.

4.2.13.5 DERECOGNITION

Items of property, plant and equipment are derecognized when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

4.2.14 INTANGIBLE ASSETS

4.2.14.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses and development costs. The municipality recognizes an intangible asset in the Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

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Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is never capitalized, while development expenditure is only capitalized to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognized at cost.

- Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

- Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

4.2.14.2 SUBSEQUENT MEASUREMENT – COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortization and impairments. The cost of an intangible asset is amortized over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortized but is subject to an annual impairment test.

4.2.14.3 AMORTIZATION AND IMPAIRMENT

Amortization is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight-line method. The annual amortization rates are based on the following estimated useful lives:

Intangible Assets	Years
Website	5

The amortization period and the amortization method for an intangible asset with a finite useful live are reviewed at each reporting date and any changes are recognized as a change in accounting estimate in the Statement of Financial Performance.

The Municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

4.2.14.4 DERECOGNITION

Intangible assets are derecognized when the asset is disposed of or when there are no further economic benefits or potential expected from the use of the asset. The gain or loss arising on the disposal or

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retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

4.2.15 INVESTMENT PROPERTY

4.2.15.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The cost of self-constructed investment property is the cost at date of completion.

4.2.15.2 SUBSEQUENT MEASUREMENT – FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

4.2.15.3 DERECOGNITION

Investment property is derecognized when it is disposed of or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Position.

4.2.16 NON CURRENT ASSETS HELD FOR SALE

4.2.16.1 INITIAL RECOGNITION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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4.2.16.2 SUBSEQUENT MEASUREMENT

Non-current assets held for sale (or disposal group) are measured at the lower of their carrying amounts and fair values less costs to sell.

A non-current asset is not depreciated (or amortized) while it is held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognized in surplus or deficit.

4.2.17 CONSTRUCTION CONTRACTS

Where the outcomes of a construction contract can be estimated reliably, contract revenue and costs are recognized by reference to the stage of completion of the contract activity at the reporting date, as measured by either the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs or surveys of work done or completion of a physical proportion of contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent that contract costs incurred are recoverable. Contract costs are recognized as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

4.2.18 IMPAIRMENT OF ASSETS

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value is use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognized in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount

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that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Financial Performance.

4.2.19 INVENTORIES

Stores and materials were held by Council for the use in Roads Agency operations. There are no materials held any more for this function. Materials are bought by order when needed.

4.2.20 FINANCIAL INSTRUMENTS

Financial instruments recognized on the Statement of Financial Position include trade and other receivables, cash and cash equivalents, annuity loans and trade and other payables.

4.2.20.1 INITIAL RECOGNITION

Financial instruments are initially recognized at fair value.

4.2.20.2 SUBSEQUENT MEASUREMENT

Financial assets are categorized according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorized as either at fair value through profit or loss or financial liabilities carried at amortized cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorization and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

Investments

Fixed deposits and short-term deposits are invested in registered commercial banks and are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognized as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Trade and Other Receivables

For amounts due from debtors carried at amortized cost, the Municipality first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments (more than 120 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have been incurred). The carrying amount of the asset is

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reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Trade Payables and Borrowings

Financial liabilities consist of trade payables and borrowings. They are categorized as financial liabilities held at amortized cost, are initially recognized at fair value and subsequently measured at amortized cost which is the initial carrying amount, less repayments, plus interest.

Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with bank and the net of bank overdrafts. The Municipality categorizes cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilized. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorized as financial liabilities: other financial liabilities carried at amortized cost.

4.2.20.3 DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through"
- arrangement and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards

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of the asset nor transferred control of the asset, a new asset is recognized to the extent of the municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Statement of Financial Performance.

4.2.20.4 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

4.2.20.5 IMPAIRMENT OF FINANCIAL ASSETS

The Municipality assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4.2.21 REVENUE

4.2.21.1 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognized to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportionate basis as an exchange transaction.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognized when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the conditions, it is recognized as an unspent public contribution (liability).

Contributed property, plant and equipment is recognized when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

Revenue from recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognized when the recovery thereof from the responsible councillors or officials is virtually certain.

4.2.21.2 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Revenue from the rental of facilities and equipment is recognized on a time proportion basis.

External interest received is interest received on investments and is recognized in the Statement of Financial Performance.

In the case of interest earned on unspent conditional grants, the interest is recognized in the Statement of Financial Performance, only if it is not a condition of the grant.

Revenue from the sale of goods is recognized when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

4.2.21.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognized when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognized as revenue when the asset is recognized.

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4.2.22 RELATED PARTIES

A related party is related to the Municipality if the party:

- are full-time councillors, being the Executive Mayor, Speaker and members of the Mayoral Committee;
- is a member of the key management personnel of the Municipality. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager (section 57 managers);
- are individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the party in making financial and/or operating decisions;
- rely on the Municipality for the settlement of liabilities on behalf of the party.

The amount recognized must be significant.

4.2.23 UNAUTHORISED EXPENDITURE

Unauthorized expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

Unauthorized expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

In the case of agency functions, when a deficit occurs, the deficit is shown as a debtor in the Statement of Financial Position and recovered from the grant allocation for the next financial year.

4.2.24 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 200), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

4.2.25 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

4.2.26 CONTINGENT LIABILITIES

All known contingent liabilities are reflected in the financial statements.

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4.2.27 AGENCY SERVICES

Council performs a cost-based roads maintenance service on behalf of the Department of Transport, Roads and Public Works of the Northern Cape Province.

Inter-authority obligations relevant to the agency service on the reporting date are reflected in the Statement of Financial Position.

4.2.28 AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendments to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

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4.3 REPORT OF THE AUDITOR-GENERAL ON PIXLEY KA SEME DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF PIXLEY KA SEME DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Pixley ka Seme District Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 46 to 95.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting

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standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Pixley ka Seme District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Irregular expenditure

8. The district municipality has omitted disclosure of material irregular expenditure of R25 090 634 (2008: R5 492 577), which was incurred in contravention of the supply chain management policy during the financial year. This is contrary to section 125(2)(d) of the MFMA, which requires disclosure of irregular expenditure in the annual financial statements.

Cash flow statement

9. I was unable to confirm the accuracy and completeness of the presentation and disclosure of the cash flow statement due to the following:
 - The cash flow statement was prepared using the indirect method instead of direct method as required in terms of GRAP 2, paragraph 16.
 - Interest received per the statement of financial performance was R2 351 765 but the amount reflected in the cash flow statement was R2 262 987.
 - The purchase of property, plant and equipment per the cash flow statement was R10 258 922 but the acquisitions as per note 7 and 9 was reflected as R5 918 012.
 - The net surplus for the year is reflected as R1 012 497 in note 24 to the financial statements but the deficit per the statement of financial performance is R1 311 127.

Property, plant and equipment

10. Our auditor's report on the financial statements for the year ended 30 June 2008 was modified as a result of the existence, valuation, rights and completeness of assets disclosed in note 7 amounting to R12 378 401 not being confirmed due to the following:
 - The existence of certain assets could not be confirmed due to the absence of information on the identification and the location of the assets.
 - The completeness of assets could not be confirmed as several assets could not be traced to the asset register and assets with values less than R3 000 were not recognised. It was further noted that several assets which are insured, do not appear on the asset register.
 - Disclosures relating to finance leases were not complete as cell phones have not been included as required by IAS 17, This resulted in the liability and asset in respect of the finance lease assets being understated in the financial statements.
 - No alternative procedures could be performed to confirm the existence, valuation and completeness of fixed assets disclosed.

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Qualified opinion

11. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Pixley ka Seme District Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the applicable reporting framework and in the manner required by the MFMA.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

12. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary information set out on pages 71 to 78 is presented as additional information and has not been audited. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act, Act No. 56 of 2003

13. Various payments were found to be paid after 30 days from receipt of the invoice from the supplier which resulted in non-compliance with section 65.

14. The mayor did not table in the municipal council a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget at least 10 months before the start of the budget year as per Section 21(b).

15. The accounting officer did not report on unauthorised, irregular or fruitless and wasteful expenditure as required by section 32(4) in a timely manner.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8	Irregular expenditure	1	4	4	3	1
9	Cash flow statement	2	3	3	1	1
10	Property, plant and equipment	1	1	5	3	1

Legend	
CE - Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA - Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA - Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC - Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M - Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		X
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
4.	The annual financial statements were submitted for auditing as per the legislated	X	

	deadlines per section 126 of the MFMA.		
5.	Key officials were available throughout the audit process.	X	
6.	Audit committee		
	• The Pixley ka Seme District Municipality had an audit committee in operation throughout the financial year.	X	
	• The audit committee operates in accordance with approved, written terms of reference.	X	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
7.	Internal audit		
	• The Pixley ka Seme District Municipality had an internal audit function in operation throughout the financial year.	X	
	• The internal audit function operates in terms of an approved internal audit plan.	X	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	X	
13.	The prior year audit findings have been substantially addressed.		X
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Pixley ka Seme District Municipality against its mandate, predetermined objectives, outputs, indicators and targets per section 68 of the MFMA.	X	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

Overall reflection on the governance framework based on the internal control deficiencies

19. Deficiencies in records management led to significant difficulties during the audit concerning delays or the availability of requested information. The accounting officer is responsible to keep proper records of the financial affairs of the municipality. Leadership should monitor transactions and events on an ongoing basis to ensure proper recognition and disclosure in the financial statements and that adequate supporting documentation exist and are properly filed.
20. The municipality's internal audit and audit committee did not perform all the required functions during the year and this function is imperative to ensure the proper implementation and monitoring of internal controls.
21. Inadequate accounting and internal control policies existed at the municipality resulting in various cases of non-compliance to legislation and accounting guidelines.
22. The implementation of audit recommendations requires improved monitoring and supervision by management.

23. There is a lack of a performance information system in place at the municipality. Detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, has not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

24. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

27. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings (performance information)

Lack of internal policies and procedures

29. The municipality did not have documented and approved internal policies and procedures to address planning, monitoring and reporting processes and events pertaining to performance information.

Performance information not received in time

30. An assessment could not be performed of the reliability of the reported performance information, as set out on pages 117 to 148 of the annual report, since the information was not received in time for audit purposes.

APPRECIATION

31. The assistance rendered by the staff of the Pixley ka Seme District Municipality during the audit is sincerely appreciated.

Auditor-General

Kimberley

26 January 2010

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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4.4 INTERNAL AUDIT UNIT

4.4.1 EXECUTIVE SUMMARY:

Internal Audit is an independent appraisal function established to examine and evaluate the organizations activities as a service to the organization. The objective of Internal Audit is to assist members of the organization in the effective discharge of their responsibilities.

The Internal Audit Unit is a shared service and the service is rendered to the District Municipality and the eight Local Municipalities, within its area of jurisdiction.

The Internal Audit Unit performed in terms of the objectives set by Council and a summary of the achievements are listed below:

4.4.2 KEY PERFORMANCE AREA 1: GOVERNANCE AND DEMOCRACY

1. Attendance of Manco meetings	Objective achieved
2. Submission of quarterly performance reports	Objective achieved
3. Contribute to Mayor meets the People campaign	Objective achieved

4.4.3 KEY PERFORMANCE AREA 2: MUNICIPAL TRANSFORMATION AND INSTITUTIANAL DEVELOPMENT

1. 90% Achievement of EE targets	Objective achieved
2. Submission of Departmental Training program	Program submitted on 23 June 2008
3. To give feedback on training and workshops attended	Objective achieved
4. 12 Departmental meetings	Objective achieved 13/12
5. Contribute to newsletter	Objective achieved
6. Resolve departmental grievances and complaints	Objective achieved

4.4.4 KEY PERFORMANCE AREA 3: FINANCIAL MANAGEMENT

1. 100% Compliance with budget allocation as per SDBIP	Objective achieved
2. % Fraud Prevention within IA Unit	Objective achieved – no fraud
3. Compile Departmental budget within timeframes	Budget submitted on 20 Feb 2009

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4. Develop a SDBIP by required date	Objective achieved
5. Attend to all Departmental AG queries	Objective achieved

4.4.5 KEY PERFORMANCE AREA 4: MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

1. Execute 36 quarterly audits	44 out of 36 audits conducted
2. Conducting Risk assessments in all 9 Municipalities	Objective achieved – 9 out of 9
3. 36 Audit Committee meetings	Objective achieved – 37 out of 36
4. Develop in-house training	Objective achieved
5. 3 Training sessions for the IA Unit	Objective achieved – 5 out of 3
6. Co-ordination of implementation of Fraud Prevention Plans	Objective achieved
7. Attend 4 Council meetings	Objective achieved – 4 out of 4
8. Attend 2 Special Council meetings	Objective achieved – 3 out of 3
9. Review Audit Charter for 9 Municipalities	Objective achieved

1. The detail of the Internal Audit Unit's performance is tabled below:

4.4.6 PERFORMANCE OF THE INTERNAL AUDIT UNIT:

4.4.6.1 KEY PERFORMANCE AREA 1: GOVERNANCE AND DEMOCRACY

MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	Current status at date of review
1.1To improve the functioning of portfolio committees	N/A		
1.2To ensure effective functioning of MANCO	Number of Management meetings attended	12 MANCO meetings	Objective achieved Manco meetings on: July 2008 - None August - None September - None

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	Current status at date of review
			October - None November - None December - 03/12/08 January - None February - 5 Feb 2009 March - None April - None May - None June - None
	Extent to which decisions are effected and level of adherence to Scorecard Objectives	Submission of Monthly performance reports to MANCO meetings and 100% compliance to scorecard objectives	Objective achieved. First qtr = 3 December 2008 Second qtr = 15 January 2009 Third qtr = 1 April 2009 Fourth qtr = 20 July 2009
1.3To monitor complaints register and customer satisfaction questionnaires	N/A		
1.4Mayoral Committee Meets the People Municipal Performance and service delivery to the public and stakeholders	Contribute Internal Audit Department's Submissions to the Mayoral Meet the People campaign – When requested	100% Contribution to Mayors Report	No request was received for the submission of any inputs.

4.4.6.2 KEY PERFORMANCE AREA: 2 - MUNICIPAL TRANSFORMATIONS AND INSTITUTIONAL DEVELOPMENT

MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
2.1 To achieve the targets in the Employment Equity	Level of achievement of the 2008/09 EE Targets	90% achievement by 20/06/09	First qtr = No vacancies Second qtr = One vacancy, but

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
Plan			moratorium on new appointments Third qtr = 2 Vacancies, but moratorium on new appointments Fourth qtr = 2 Vacancies, but moratorium on new appointments
2.2 To ensure that every employee has a training and skills development plan for the year	Submission of the Department's training plan to Corporate Services	Submission of the approved Departmental Plan by 30/06/09	Objective achieved. The Departmental training plan was submitted to Corporate Services on 23 June 2008.
2.3 To strengthen the capacity of institutional administration and management structures to understand, facilitate and implement development	Level of skills and knowledge transfer by staff and management to colleagues	All employees and management to feedback on Workshops and Courses attended	First qtr. All the members attended the Report Writing training. No need to give feedback Second qtr. No training during this quarter. Third qtr. No training during this quarter Fourth qtr. R Sors C Crament C Draai S Mathews T Mgca L Morris Attended MFMP training in Kimberley
	Number of staff meetings held in the Department	12 Departmental meetings	The following Departmental meetings were held: 1. 18/08/08 2. 01/09/08 3. 06/10/08

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
			4. 20/10/08 5. 03/11/08 6. 01/12/08 7. 26/01/09 8. 09/02/09 9. 16/03/09 10. 30/03/09 11. 04/05/09 12. 08/06/09 13. 29/06/09
2.4The Implementation of Change Management	N/A		
2.5 To ensure internal communication of Municipal iaaues	Implementation of Communication Plan	All Departmental Contribution required (e.g quarterly newsletter)	No inputs were requested during the 1st quarter. Second quarter Meeting of Consultant was post phoned several times Inputs were submitted on18/11/08. Meeting of Consultant was held on 27/11/08 No inputs were requested during the 3rd quarter. No inputs were requested during the fourth quarter.
2.6 To ensure Sound Labour management and HR Issues	Level of resolution of complaints and grievances	All grievances and complaints in the Department to be	First qtr = No grievances Second qtr = No grievances

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
		resolved internally	Third qtr = No grievances Fourth qtr = No grievances

4.4.6.3 KEY PERFORMANCE AREA: 3 - FINANCIAL MANAGEMENT

MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	Current status at date of review
3.1To ensure Implementation of financial controls	% expenditure variance against municipal budget	100% compliance with budget allocation as per per SDBIP	This objective has been achieved. Monthly budget control printouts have been scrutinized and projections and calculations have been made.
	% Prevention of fraud and corruption within the IA Unit	100% prevention (through application of policies)	No instances of fraud were reported during the year.
3.2 To develop an annual and medium term budget for the municipality	Approved Department budget in line with IDP as required by the Municipal PMS Framework To develop a SDBIP	100% compliance with time frames from Finance	Departmental budget for 09/10 has been submitted to the CFO on 20 February 2009.

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	Current status at date of review
		IA SDBIP in place by required date from Finance	The SDBIP has been compiled and is operational.
3.3Assistance with AG queries	All AG queries related to the Department to be timeously attended to as requested	100% compliance	Not applicable to the 1st quarter. Second quarter The AG's queries were received on 24/10/08 (08.14) and my response was submitted on 24/10/08 (02.11 pm) Not applicable to the third quarter. Not applicable to the fourth quarter.

4.4.6.4 KEY PERFORMANCE AREA: 4 – MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
4.1Internal Audit execution	4.1 At least execute quarterly internal audits in terms the IIA Standards	4 Internal Audits at 9 Municipalities Conducted by 30/06/09	Objective has been achieved: The following audits were conducted. First qtr = 17 out of 9 Second qtr = 9 out of 9 Third qtr = 9 out of 9 Fourth qtr = 9 out of 9
	4.2 Risk Management	Conducting risk assessment in all 9 municipalities by	Objective has been achieved during the first quarter.

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
		30/10/08	9 out of 9
	4.3 Report to audit committee on audits performed	4 Quarterly AC meetings on each of the 9 municipalities (if an AC has been appointed)	The objective has been achieved: **The following IA Reports were issued:** First qtr = 7 out of 9 Second qtr = 9 out of 9 Third qtr = 9 out of 9 Fourth qtr = 9 out of 9 **The following AC's met during the year:** **Pixley Ka Seme (4 of 4)** 09/09/08 28/10/08 03/03/09 25/06/09 Postponed **Emthanjeni (4 of 4)** 09/09/08 28/10/08 03/03/09 25/06/09 Postponed **Siyathemba (6 of 4)** 12/09/08 24/10/08 Postponed

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
			03/12/08 Postponed 13/02/09 13/03/09 26/06/09 Postponed **Thembelihle (6 of 4)** 07/08/08 30/09/08 31/10/08 26/02/09 Postponed 12/03/09 24/06/09 Postponed **Kareeberg (6 of 4)** 27/10/08 – No quorum 27/11/08 - No quorum 12/02/09 – No quorum 12/03/09 – No quorum 28/04/09 05/06/09 **Renosterberg (3 of 3)** 08/12/08 04/03/09 10/06/09 **Ubuntu (2 of 2)** 05/03/09 12/06/09 **Umsobomvu (2 of 2)** 18/02/09 23/06/09

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
			Siyancuma (4 of 4) No AC
	4.4 Training and development: in-house	Conduct ongoing internal training sessions for the Internal Audit Unit by 30/06/09	The objective has been achieved. In house training is conducted on a continuous manner, at Dept meetings.
	4.5 Training and development: external	3 Training sessions for the Internal Audit Unit by 30/06/09	**First qtr**: The staff attended the following training; 1.**Effective Report Writing.** Ms R Sors Ms C Draai Ms T Mgca Ms S Strydom Mr R Moses Mr C J B Müller 2. **Performance Auditing** = Ms S Strydom Ms S Mathews Mr C Crament **Second qtr**: 1. **Ethics Management** Mr C J B Muller **Third qtr:** Due to the financial constraints experienced by the Municipality, all training was cancelled. **Fourth qtr:**

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
			1. **Audit Committee Training** Mr C J B Müller 2. **MFMP (1st Module)** Ms R Sors Ms T Mgca Ms C Draai Ms S Mathews Mr C Crament Mr L Morris
	4.6 Assist the municipality with the formulation and implementation of Fraud Response and Prevention Plan	Implementation and coordination of the Fraud Response & Prevention plan with all 9 Municipalities by 30/06/09	The objective has been achieved. The draft document for was distributed to all Local Municipalities. Siyathemba - 24/03/09 Thembelihle - 24/03/09 Ubuntu - 18/03/09 Renosterberg - 23/03/09 Emthanjeni - 27/01/09 Siyancuma - 10/03/09 Umsobomvu - 10/03/09 Kareeberg - Own doc
5 Administration	5.1 Attend Council meetings with full preparation	4 Council meetings	The objective has been achieved: The following Council meetings were attended 3 July 2008 22 September 2008 12 December 2008 25 March 2009

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MUNICIPAL OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE TARGET	CURRENT STATUS AT DATE OF REVIEW
	5.2 Attend Special Council meetings	2 Special Council meetings	The objective has been achieved: Special Council meetings: 18 February 2009 29 May 2009 17 June 2009
6 Planning Internal Audit Function	6.1 Review Internal Audit Charter	1 Audit Charter for All 9 Municipalities	The objective has been achieved; Pixley ka Seme Emthanjeni Kareeberg Ubuntu Umsobomvu Renosterberg Siyathemba Siyancuma Thembelihle

4.4.7 FINANCIAL PERFORMANCE:

The Internal Audit Unit had to render the service to nine Municipalities, within the approved budget. Strict budget control was necessary to prevent over spending of the approved budget. Apart from the Personnel expenditure, the actual expenditure on Subsistence and Travelling is the second largest expenditure of the Unit. Proper planning and financial discipline was necessary to render the service, within the budget, without neglecting the quality of the service.

Expenditure Budget	R 2,139,000
Actual expenditure	R 2,007,411

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